

LEADING THE WAY THROUGH THE 21ST CENTURY

# SHOPPING CENTER BUSINESS™

APRIL 2007

## A NEW DAY FOR ALBUQUERQUE:

MESA DEL SOL BRINGS 9,000 ACRES OF NEW DEVELOPMENT

- POAG & McEWEN CELEBRATES LIFESTYLES
- EXPORTING AMERICAN CENTERS OVERSEAS

PLUS:

- RESTAURANT LEASES VS. RETAIL LEASES
- ADRENALINA'S EXTREME SPORTS STORE

RETAIL CONTRACTORS  
RESOURCE GUIDE

# Marking The Map

**After flying under the radar for years, Westrust has suddenly caught the sights of retailers with its new projects.**

— Randall Shearin

**W**estrust is a company whose projects are suddenly putting it on the map. The company has been around for 16 years, but most of that time was spent buying Resolution Trust properties, turning them around and selling them for profit. But that has changed in recent years, and what Westrust is doing now in California is turning heads across the state and beyond. *Shopping Center Business* recently spoke with Ricardo Capretta and Charles Smith, co-managing partners of Westrust, to see why this company is making changes and what new projects are on the board.

Westrust's beginnings stem from where a lot of other companies in the real estate business started in the early 1990s — it acquired distressed assets from the federal government's Resolution Trust Corporation (RTC) following the savings and loan fallout. From 1992 to 1998, all the company did was buy projects and loans — from office buildings to apartments to retail centers — that were distressed. During those years, Westrust did more than \$400 million of deals on distressed properties. Like other companies, it paid

pennies on the dollar for properties, fixed them up, leased them up and sold them for profit. It was a good business and it taught Westrust a number of skill sets.

As distressed properties from the RTC became harder to find, the company knew it had to switch gears. At the time, around 1999, it had a number of retail centers that it was in the process of repositioning. With a base in retail, the company decided to place its future in the sector as well.

"As the REO portfolio began to shrink, we started looking at an asset class that we had some experience in and where we could make an impact," says Smith.

The change wasn't easy for Westrust as the company spent 3 years turning its retail portfolio into diamonds. But the hard work paid off when retailers noticed the quality centers that the company had produced.

"The whole transition from 1998 to 2001 led us to an incredible cache of projects from 2002 to 2006," says Capretta. "These things take time to get going but it has led us to our current portfolio of development assets."

Westrust has spent the last few years concentrated on a few projects where it is making its mark even deeper. It currently has \$62 million worth of shopping centers



**Nut Tree Village is a major project for Westrust currently. The 332,000-square-foot center will be anchored by Best Buy, Borders, HomeGoods, PetSmart, Old Navy and Sport Chalet, as well as a 19,000-square-foot market-style pavilion.**

— about 1.8 million square feet — under construction or development. These are the projects that will put the company on the map, says Capretta.

"We believe that we are working on four of the most interesting projects in California," says Capretta.

At the top of Westrust's plate in 2006 was the development of Nut Tree Village. The shopping center is being developed on the site of one of California's most famous roadside landmarks, The Nut Tree, in Vacaville, California. The Nut Tree started out as a fruit stand in 1921 and later grew into an arts, crafts and food emporium. From 1921 to 1996 the Power family owned and operated The Nut Tree. In the 1990s, the family had some internal disputes which led to the attraction's closing in 1996. The Power family put the property for sale. The city of Vacaville decided the property was too much a part of its image to let it go. It purchased the property in 1996 and created a redevelopment district around it.



**The Orchard is a redevelopment of an older shopping center in Orange County, California.**

Tenants for the center include a 50,000-square-foot Ralph's Supermarket, Pier 1 Imports, Staples, HomeGoods and two restaurants, Lucille's Smokehouse Barbecue and Johnny Carino's.

In 2004, Nut Tree Associates, a joint venture of Rockwood Capital and Snell-Co, won the RFP to be the master developer of 76 acres of the redevelopment zone. Nut Tree Associates has the auspicious job of finding other developers to create the parts of mixed-use environment envisioned for the property. That includes retail, hotel, residential, office and an amusement park. Nut Tree Associates chose Westrust to develop the 30-acre retail site after interviewing numerous other retail developers who believed the market was too shallow for a lifestyle center. The 10-acre residential parcel is in escrow, while the office portion will be developed by an office developer yet to be selected. Nut Tree Associates is self-developing the \$13 million amusement park on its own and in 2008 will be developing a 200-room hotel with a 10,000-square-foot convention hall.

Francisco's Ferry Building. Some of the same tenants are even in both projects.

"A major thrust in the redevelopment of this project was to reintroduce concepts of the old Nut Tree," says Capretta.

While locals will be the dominant shoppers, Westrust has positioned the Market Pavilion area as a tourist attraction. Since a lot of Californians remember The Nut Tree (Westrust estimates the name recognition at 90 percent among Northern Californians), Westrust made sure that there was an attraction similar to the center's namesake as part of the project. Also, the company spared no expense in making the project an attractive place for shoppers. The company spent 35 percent more on construction costs on Nut Tree Village than it does for similar projects elsewhere.

In San Jose, California, the company

interaction and relationships. A strong selling point for the company is that the principals are involved in the projects from day one, and remain involved and committed throughout the progress of the center.

"Both Nut Tree Associates and General Electric liked the fact that they can deal directly with a principal of the company," says Smith. "When you have a front-line person who also has a stake in the deal and a vision for the development, it is very impressive to a seller or master planner. They know they are going to get a project that shows our total commitment."

The General Electric land was environmentally impaired, which created a long escrow time for Westrust. The facility first had to be closed, then demolished, then the land had to be remediated before it could be handed over to Westrust.

"GE was looking at this not as 'where can we get the highest price' but 'who can we work with the best to get this done,'" says Capretta.

Ground broke for the center in November 2006, and construction is under way. When completed, The Plant will be a 646,000-square-foot power center that includes 110,000-square-foot town square project. The project will serve as the major regional power retail center for an underserved part of San Jose. The market is very dense with very high household income. The Plant will be the largest power center constructed to date in the city of San Jose. The only piece remaining from the old General Electric facility is a 17,000-square-foot two-story office building built in 1948 that is being restored. The theming for the project follows the lead from that building, lending the center a 1950s Art Moderne corporate style.

Tenants for the center include Target, The Home Depot, Best Buy, PetSmart, OfficeMax and five other anchors. There are 10 anchors to the center.

In Hawaii, Westrust is redeveloping a 162,626-square-foot distressed retail center in Honolulu. Aloha Tower Marketplace will serve as a center for locals and tourists, as it sits along the city's piers, which also serve as a cruise ship terminal. The center has more than 90 small, independent tenants and anchors like Gordon Biersch Brewery, Don Ho Island Grill, a local surf apparel retailer,



The Plant, the redevelopment of a former General Electric motor plant in San Jose, California is a joint venture between Westrust, Pacific Coast Capital Partners and Vornado Realty Trust. It is one of the largest brownfield redevelopments in California.



At 646,000 square feet, The Plant will be anchored by Target, The Home Depot, Best Buy, PetSmart, OfficeMax and five other large box tenants.

Westrust began development on the retail center in 2005, which was named Nut Tree Village. The 332,000-square-foot center will be complete first quarter of 2007. The center is really two projects in one. Sixty percent of the square footage is used in a classic power center project, while 35 percent of the project is used for a lifestyle village set among the power tenants. Best Buy, Borders, HomeGoods, PetSmart, Old Navy and Sport Chalet are among the anchors at the center. About 5 percent of the retail space was used for a market hall, called the Market Pavilion, which houses small tenants with specialty goods. Comprising about 19,000 square feet in total, the Market Pavilion's tenants include Stonehouse Olive Oil, Fenton's Creamery, Mariani's Dried Fruits and Jelly Belly. Capretta compares the venue to San

is developing The Plant, the redevelopment of a former General Electric motor plant, in a joint venture with Pacific Coast Capital Partners and Vornado Realty Trust. One of the largest brownfield redevelopments in California, the 55-acre site is located in south central San Jose. General Electric marketed the property for sale to retail developers. After competing with 18 retail developers, Westrust won the heavily contested RFP process to purchase the land and to redevelop the site. The reason that the company won the bid for The Plant and for Nut Tree Village is because of its owners' vision for the project, its ability to procure significant financial partners that could agree to the demanding GE purchase requirements, and its direct principal involvement in the negotiations. Capretta and Smith both lead Westrust based on their

an independent home goods store and Hooters. Westrust found the opportunity through one of its investment partners, Apollo Real Estate Funds, who asked Westrust to consult on the project. Westrust has since taken an ownership interest in the center and taken on the role of the project's redeveloper. The development continues beyond retail, as Westrust is investigating placing residential condominium towers at the piers.

In Southern California, the company has developed or redeveloped about 900,000 square feet of retail centers over the last 6 years. The company has done a number of smaller neighborhood centers anchored by Albertson's. The company was also involved in the redevelopment of The Beverly Connection, a two-story, 322,000-square-foot retail center at the corner of Third Street and La Cienega Boulevard, across from the Beverly Center in Los Angeles. With Apollo Real Estate Funds and Vornado Realty Trust, Westrust renovated the center and improved the center's pedestrian access. It also improved the look and tenancy of the project. Westrust relocated a few retailers and brought in new retailers like Marshalls and Home-

Goods. Other tenants include Ralph's, Old Navy, Good Guys and Longs Drugs. In a second phase, the owners are adding 62 for-sale residential condominium units and 177 senior housing units to the Beverly Connection.

"It is creating a great mixed-use project that will have great retail dynamics plus the two residential components that are necessary in that area," says Smith.

In south Orange County, California, Westrust is developing The Orchard in Lake Forest, on the site of a center called Saddleback Valley Plaza that was built in 1968 by Alexander Haagen. Located on El Toro Road, the project was complicated by the fact that the land underlying the center was on a 37-year ground lease. The land was originally held by five family members. However, in the years since the center's original construction, one of the members had given some of her shares in one parcel to nieces and nephews, making one of the parcels have multiple owners. To further complicate matters, another developer bought out one of the landowners.

Eventually, Westrust was able to control the entire 25 acres of fee ownership land to raze and rebuild the center. The original center was built with a town-and-country style and Westrust's new center harkens to that, albeit a modernized version with more Craftsman influences. Tenants for the center include a 50,000-square-foot Ralph's Supermarket, Pier 1 Imports, Staples, HomeGoods and two anchor sit-down restaurants, Lucille's Smokehouse Barbecue and Johnny Carino's. Since it is located in an upscale area, Westrust is adding a high-end food court to one end of the center that features outdoor furniture and a large fountain that can serve as a gathering place for the community. It is a center that the city of Lake Forest now refers to as its town center.

"Given the constraints of the leasing market in Orange County, we were successful in landing a stable of great tenants," says Smith. "We were also able to add a lot of elements from a design perspective with a small main street and beautiful plazas on a gateway corner to the city."

While Westrust has flown under the radar for many years, it has become known over the last year because its projects are gaining national attention. With highly visible projects, it is hard to stay out of



A rendering of the revitalized and renovated Beverly Connection. The popular center

includes tenants like Marshall's, HomeGoods, Ralph's, Old Navy, Good Guys and Longs Drugs. In a second phase, 62 for-sale residential condominium units and 177 senior housing units will be added to the Beverly Connection.



Beverly Connection as it is today.

the limelight. For the future, Westrust would like to open two quality projects per year.

"Our goal is to keep our company at 18 to 20 people," says Capretta. "We think that if you have great people we can execute our platform efficiently and effectively."

"The one thing that Ric and I always want to be able to do is to be an integral part of every project that we do," says Smith. "We want to be there in the beginning, middle and end of a project. We want to make sure we are the ones who deliver on the promises that we make."

Smith and Capretta both serve as managing partners of the company. Capretta is located in San Francisco, while Smith is based in Calabasas, California. The company also has a regional office in Irvine, California, which allows it easy access to Orange County and the Inland Empire, both markets where the company owns properties. **SCB**